



# Core-Periphery Model

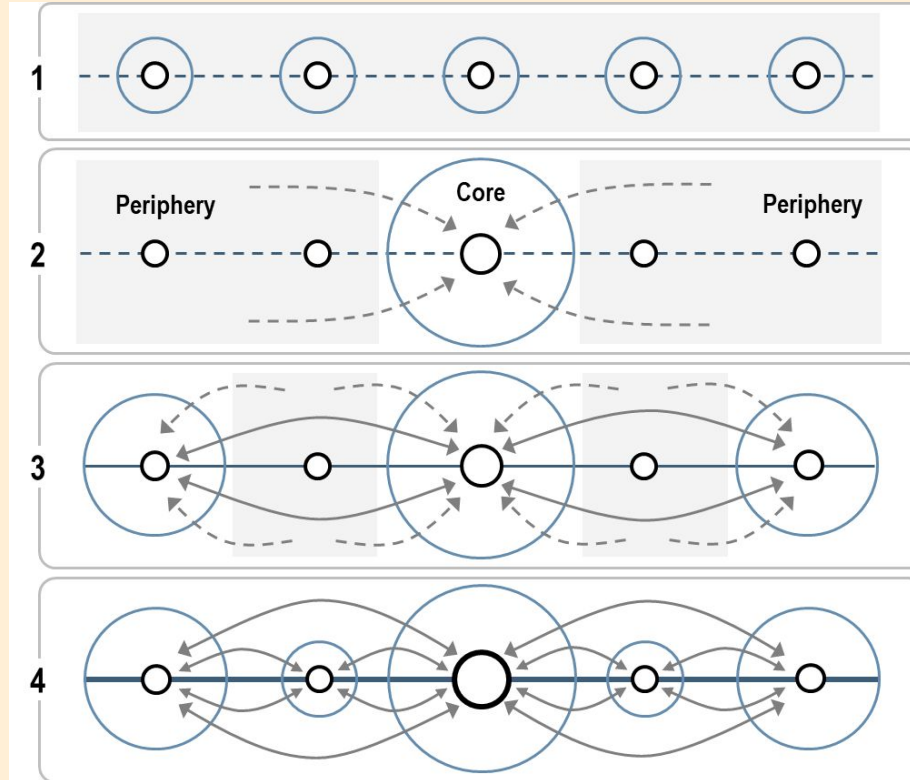
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# What is the Core-Periphery model?

- The Core-Periphery Model was invented by John Friedmann, an Honorary Professor in the School of Community and Regional Planning.
- The model sought to show that when **economic growth is sustained over long periods of time**, its incidence works toward a **progressive integration** of the space economy.

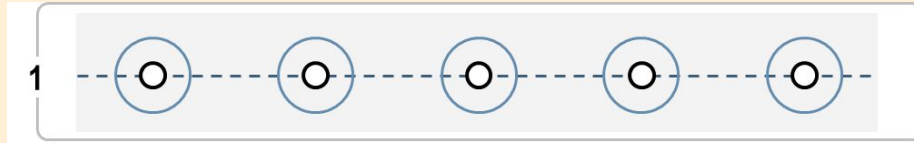
The model is broken down into 4 stages.

# The 4 stages



## Stage 1: Independent Local Centres

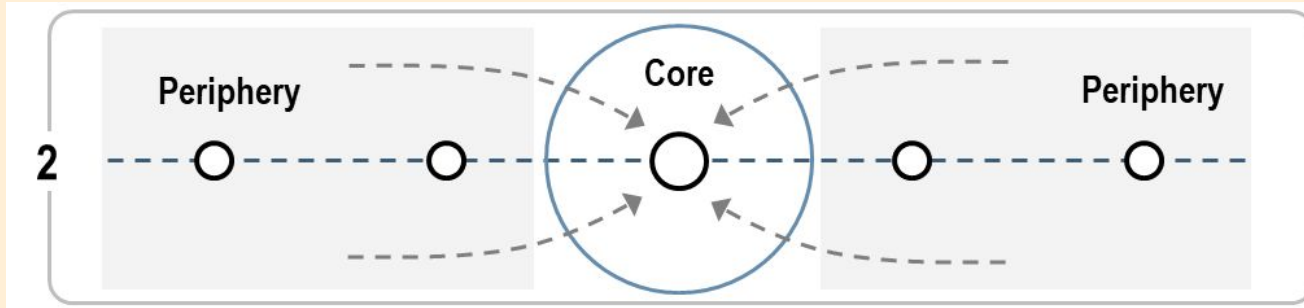
- Pre-Colonial stage, associated with a series of isolated self-sufficient local economies.
- These independent local centres produce and consume their own resources and products alike, there is no trade that occurs with over economies.



## Stage 2: A Single Strong Centre

- Growth is envisaged to occur rapidly in one main region.
- Formation of single strong centres.
- These centre(s) will feed on the rest of the nation, and the extensive periphery is drained.
  - This would lead to a downward spiral effect where peripherals suffer from lack of resources, and peripherals development will be affected.
- At the **global** level, developed countries can be seen as the core centres and less developed countries are seen as the peripherals.
- At the **national** level, an example of one single strong metropolitan would be Bangkok (Thailand).

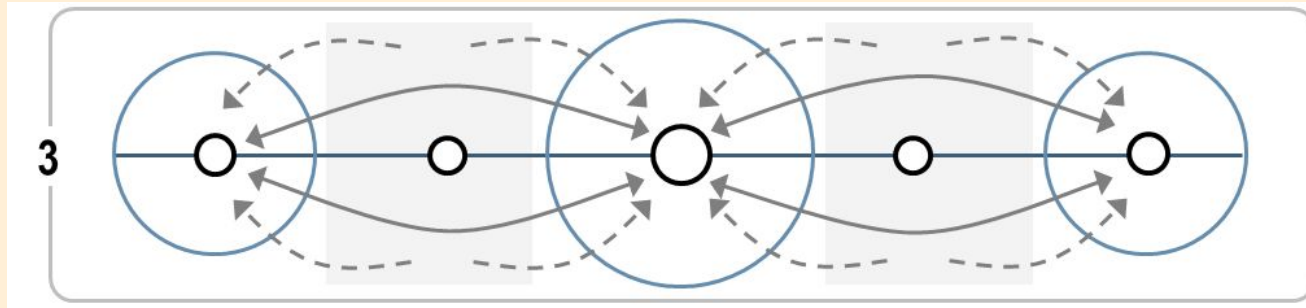
## Stage 2: A Single Strong Centre



## Stage 3: Regional Sub-Centres

- In the third stage of the model, regional sub-centres are formed.
- These sub-centres receive benefits from the core/single strong centre.
  - Such benefits could be increased supply of resources such as skilled labour, increased accessibility to knowledge, upgrades in technology, etc.
- At the global level, Newly Industrialised Countries [NICs] can be seen as the regional sub-centres.

## Stage 3: Regional Sub-Centres

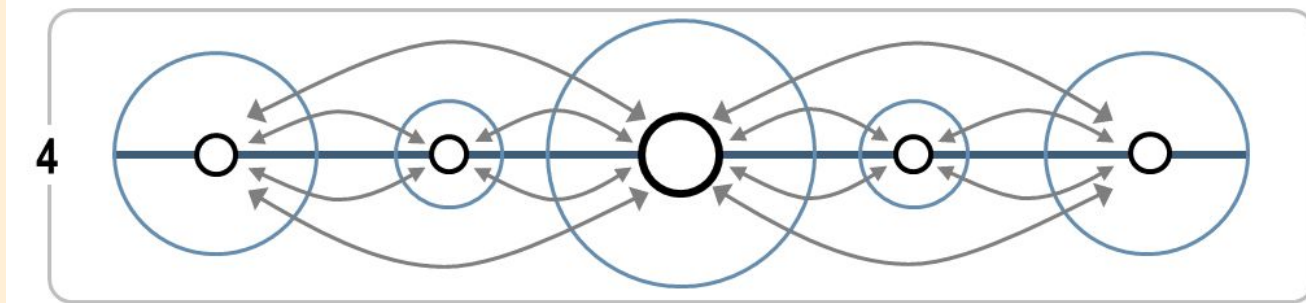




## Stage 4: Fully Integrated System with Interdependent Cities

- Functionally interdependent system of cities → Results in a smaller gap between the core and peripherals.
  - Free trade, free mobility of factors of production amongst the cores and peripherals, with all countries being able to value-add to one another regardless of level of development.
- This is the **most ideal** situation.

## Stage 4: Fully Integrated System with Interdependent Cities



# Evaluation of the model

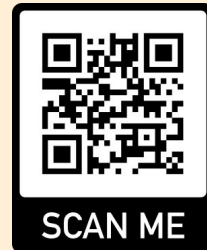
- The model is highly centred on less-developed countries (peripherals), where it is biased and favours the core regions more.
  - Neglects efforts and ways in which the less-developed countries can value-add.
- There is an inherent criteria built into the model → It is assumed that state intervention is present, needed, and effective, but in reality there is imperfect information and ineffective governance present in many countries.

# Exam Requirements

- Be able to explain how the 4 stages of the core-periphery model works and evaluate the pros and cons of modelling the world after this model.
- Compare with the dependency theory and bottom-up development approaches to development.



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# Dependency Theory

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# What is the Dependency Theory?

- The Dependency Theory was heavily promoted by Andre Gunder Frank, a German-American sociologist and economic historian.
- The Dependency Theory revolved around the concept that development and underdevelopment are the **opposite sides to the same coin**, where both are the necessary outcome and manifestation of the contradictions of the capitalist system of development.





## The Dependency Theory

- The condition of developing countries is not the outcome of misfortune or chance, but rather a reflection of the way they are incorporated into the world/global system.
- The theory felt that the only real alternative (for the less-developed countries) was to break away from the close relationships with the core regions (developed countries)

# The Dependency Theory

- In the dependency theory, these developed countries are known as 'metropoles' and the less-developed known as 'satellites'.
  - Development of metropoles would depend on the exploitation and active underdevelopment of the satellites.



<https://urpe.wordpress.com/2017/06/09/dialogues-on-development-on-dependency-theory/>

## Evaluation of the theory

- In the earlier days, with the absence of technology and during the colonial rule, this theory did apply to several countries in certain aspects.
- The theory is over-simplified and over-generalised.
  - It does not take into account the emergence of Newly-Industrialised Countries which show that there aren't only 2 sides to the coin.
- The theory fails to come up with the specific causes of underdevelopment.
  - Only blames underdevelopment on the metropolises, not possible local/governmental causes.
- Overall, an unrealistic theory that is not realistic in today's society.

# Exam Requirements

- Be able to explain what the dependency theory is and why it has been useful or not in showing development in the world.
- Compare with the core-periphery model and bottom-up development approaches to development.



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# Bottom-Up Approach

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# What is the Bottom-Up Approach?

- Originating from the Seventh Special Session of the UN General Assembly, the bottom-up approach emphasised the need for **self-reliance** to be seen as central to development, and stressed on internal moving forces rather than external forces of change.
- There was a need for development to be ecologically sensitive, to meet basic needs of all humans, and stressed on the principles and importance of public participation.



# An example of a bottom-up approach

## Wells and Hand Pumps, Africa

- WaterAid, a UK NGO install wells and hand pumps in Mali, Africa, an example of a bottom-up development scheme.
- Trains the community to use the system, involves public participation.
- Allows for easy repair of the water system, equipped locals with necessary equipment and skills to repair if faulty.



## Evaluation of the bottom-up approach

- Has a long-term, sustainable, positive impact on many locals as it focuses on essential and basic living standards.
  - Improved sanitation and giving locals the power to have a say in the implementation of strategies empowers them.
- Strategies address social needs → Allows people to break out of the cycle of poverty → Closes the development gap.

## Evaluation of the bottom-up approach

- However, this may not be the priority of many governments in less-developed countries.
  - Many governments continue to focus on economic growth/trying to develop the country from a top-down (government) approach instead of going down to help the people.
  - Hence, the need for Non-Governmental Organisations.
- Some of these bottom-up approaches may also take a long time to implement and cannot be applied on a national/global scale.

# Exam Requirements

- Be able to explain how the the bottom-up approach is employed in countries and the benefits/limitations it may bring.
- Compare with the dependency theory and core-periphery model of development.



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# Human Development Index

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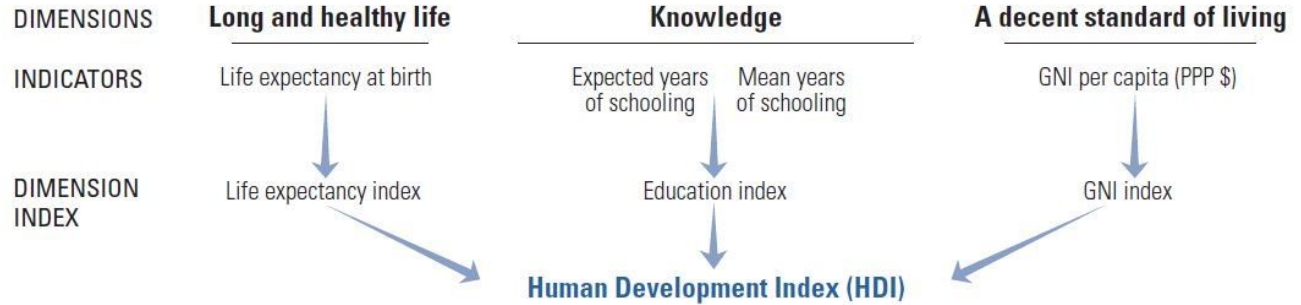
# What is the the Human Development Index [HDI]?

- The Human Development Index [HDI] was developed by the United Nations, where it contains 3 main variables:
  - Life Expectancy
  - Educational Attainment
  - GNI per capita
  
- HDI has a maximum value of 1.
  - A higher value of HDI shows that there is longer lifespan, greater education, and a higher GNI per capita for that country.
  - A lower value shows the opposite.
  - E.g. Norway (0.944), Chad (0.392)



# What is the the Human Development Index [HDI]?

## Human Development Index (HDI)



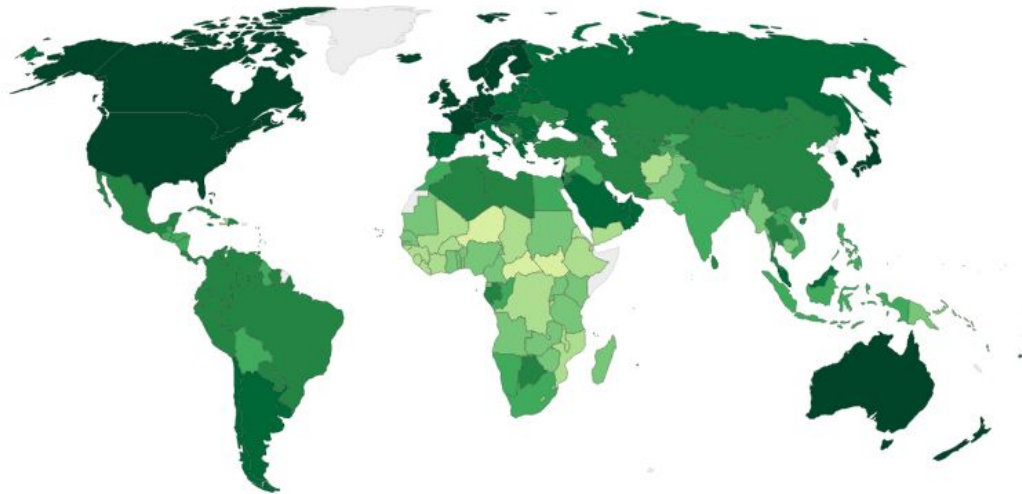
<http://hdr.undp.org/en/content/human-development-index-hdi>

# Example of a resource on HDI

## Human Development Index, 2017

The Human Development Index (HDI) is a summary measure of key dimensions of human development: a long and healthy life, a good education, and having a decent standard of living.

Our World  
in Data



Source: UNDP (2018)

[OurWorldInData.org/human-development-index/](https://OurWorldInData.org/human-development-index/) • CC BY

# Evaluation of Human Development Index

## Benefits

- Takes into account different factors of a country, beyond just GDP and GNI. It is an overall measure of development within a country.
  - This data is valuable because the definition of development is broader than just GDP and/or GNI.
- Can easily observe and compare the HDI of different countries because of its numerical result.
- Offers a multi-dimensional view on all aspects of development.
  - Makes for easier policy making by policy-makers.

# Evaluation of Human Development Index

## Limitations

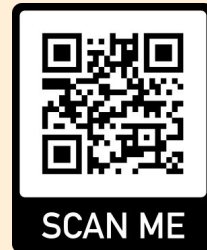
- Income, knowledge and GDP are confounding (all inter-related).
- HDI fails to take into account some key aspects of development such as gender equality and respect for human rights and freedom.
- Not ALL parts of the world would have available data to determine HDI.

# Exam Requirements

- Be able to identify explain what different values of HDI means for a country.
- Explain the pros and cons of using HDI as a measure of development.



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# Multidimensional Poverty Index

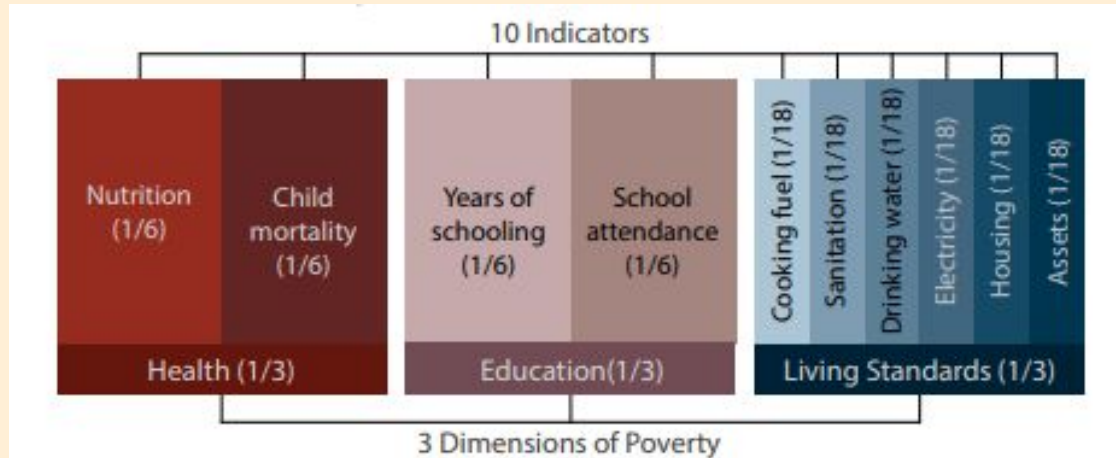
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# What is the Multidimensional Poverty Index?

- The MPI identifies multiple deprivations of people in health, education and standard of living.
  - Looks at nutrition, child mortality, years of schooling, living standards, etc.
- Reflects the incidence of multidimensional poverty and its intensity in a country.
- Look at the percentage of the population who live in multidimensional poverty.

# The Multidimensional Poverty Index Scale?



# Evaluation of Multidimensional Poverty Index

## Benefits

- Captures distinct and broader aspects of poverty.
- Captures the cause of deprivation directly - in health and education outcomes.
- Reveals great variations in poverty levels within countries.

# Evaluation of Multidimensional Poverty Index

## Limitations

- Still many facets of poverty that the index does not touch on (i.e conflicts, personal security, domestic violence, etc.)
- Some locations do not have recorded MPI.

# Exam Requirements

- Be able to explain what MPI is.
- Explain the pros and cons of using MPI as an index to measure development levels across the world.



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# **Sustainable Development Goals [SDGs]**

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# What are the Sustainable Development Goals [SDGs]?

- Otherwise known as the post-2015 development agenda, the Sustainable Development Goals were developed during the Rio+20 in 2012.
- The SDGs were an improvement to the MDGs, where new and more specific targets were also set.
- It is still ongoing today (aimed to finish by 2030).
- Consists of 17 goals.

# Sustainable Development Goals [SDGs]



## SUSTAINABLE DEVELOPMENT GOALS

17 GOALS TO TRANSFORM OUR WORLD



# Purpose of SDGs

## 1. Changing population and migration trends

- Increasing world population and increased mobility trends have impacted economic growth, resource utilizations, social implications on families.
- Increased mobility and movement of technology.

## 2. Countries with high growth in large emerging economies

- Changing nature of development in new economies which are growing rapidly require new targets.

## 3. Partial-failure of MDGs

- With several of the MDGs not being well-targeted, there was a need to refresh the goals and ensure specific needs were met.

# Evaluation of Sustainable Development Goals

## Progress

- Many countries are en-route to achieving the SDGs, where there has been increased transfer of knowledge and technology amongst the developed and less-developed nations.
- Most countries have adopted the SDGs and ensured that they are pursued by all players of society as well (government, firms, households).

# Exam Requirements

- SDGs tend to work in-hand with MDGs (the improved post-2015 version), hence compare the improvements that have been made and assess if these goals are attainable/have been attained.
- The flaws of SDGs have not been exposed yet as it is still ongoing, hence will require close monitoring for the next few years leading up to 2030.



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# **Structure of the Economy / Development Levels**

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# Structure of the Economy

1. Primary Sector
2. Secondary Sector
3. Tertiary Sector
4. Quaternary Sector
5. Quinary Sector

# Structure of the Economy

## 1. Primary Sector

- Activities engaged in the exploitation of natural resources, such as agriculture, fishing, mining and oil extraction.
- Declining sector with no value-added to economy.

## 2. Secondary Sector

- Once product has been changed and value-added (to raw materials)
- Expanding in some less-developed countries and emerging economies but contracting in developed countries.
- Output is immediately suitable for use by consumers, or may act as components for incorporation in other final products.

# Structure of the Economy

## 3. Tertiary Sector

- Usually provides services to satisfy consumers.
- Includes wholesale, retail trade, transportation, entertainment.
- Often employs low-paid, unskilled labour.

## 4. Quaternary Sector

- Includes banking, finance, business and professional services (legal).
- Intellectual services which assemble, transmit and process information for policy-making, economy-wide decisions/actions.

# Structure of the Economy

## 5. Quinary Sector

- Service provided by the government that is not profit-oriented.
- E.g. Polyclinics, Transportation, Community Centres

# Levels of Development

1. Less-Developed Countries
2. Newly-Industrialised Countries
3. Developed Countries

# Levels of Development (employment structure variations)

## 1. Less Developed Countries

- People in the poorest countries are heavily dependent on the primary sector for employment
  - E.g. Subsistence farmers
- Little tertiary, secondary and quaternary sectors.
- Very vulnerable to changes in world markets.
- Rely on one small number of products for most of their export earnings.

# Levels of Development (employment structure variations)

## 2. Newly-Industrialised Countries

- Rapid increases in employment in manufacturing.
- Attracts foreign direct investment from TNCs.
  - NIEs develop their own domestic companies.
- Increase in wealth of NIEs allow for greater investments in tertiary/quaternary sectors.

# Levels of Development (employment structure variations)

## 3. Developed Countries

- Developed countries are often called post-industrial sectors because fewer people are now employed in manufacturing industries than in the past.
- Huge advents and investments in technology has been made, have far more tertiary and quaternary sectors.



# Exam Requirements

- Understand the various structures of an economy, as well as the varying levels of development in today's society.



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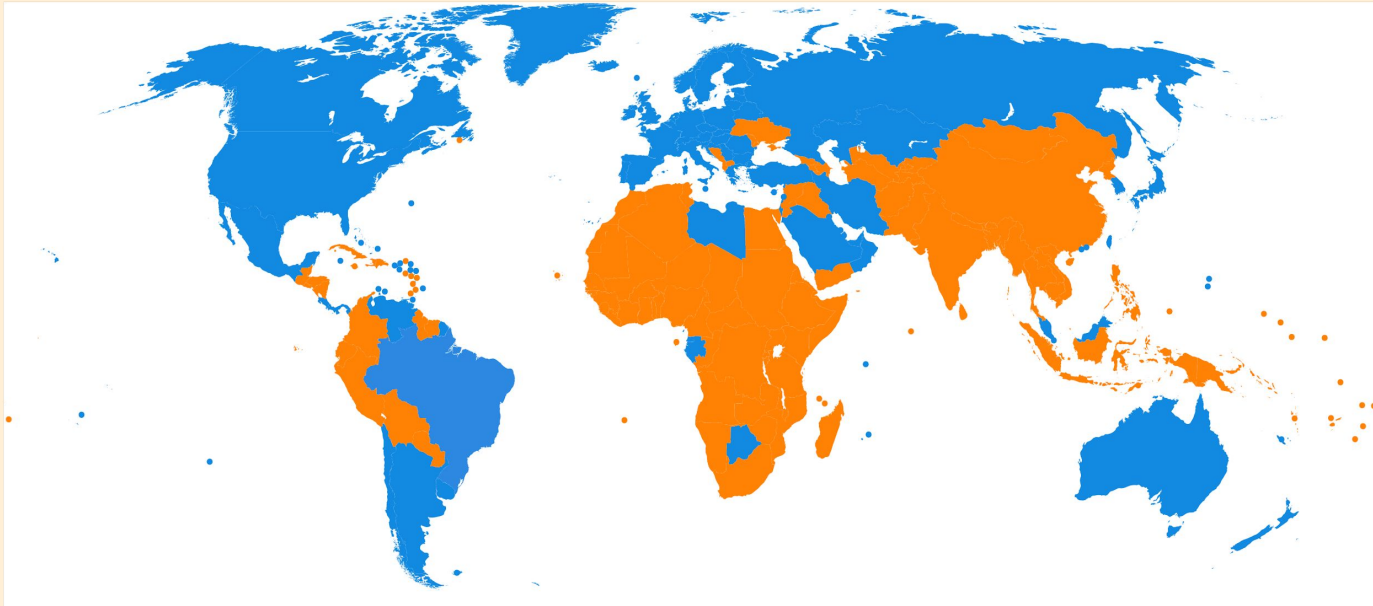


# **New International Division of Labour**

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# Definition of New International Division of Labour [NIDL]

- Defined as the spatial arrangement of labour, it is an outcome of globalisation.
  - Highly-skilled research and development, and decision-making jobs usually located in DCs
  - Low-cost production occurs in LDCs and peripheral areas of DCs.



# Causes for the emergence of NIDL

## 1. Standardisation and improvement in transport and communication

- New transport technologies have enhanced flows of material and products and stimulated possibilities for geographical specialisation.
  - E.g. Emergence of cargo planes/ships.
  - Containerization has eased made movement of goods on land and over ocean → Reduced cost and time involved in moving freight over long distances.
  
- Satellite technology has made possible global communication.
  - Transmission of information at very high speeds with high signal strength has greatly improved communication.
  - Enabled a large proportion of business communication amongst firms to take place.

# Causes for the emergence of NIDL

## 2. Shift towards Free Trade

- Sentiments towards free trade has permitted greater movements of capital, goods and services between countries without tax.
- Lack of tariffs in less-developed countries attract transnational corporations.

## 3. Abundance of low cost labour in LDCs

- Lesser regulation in less developed countries, lower costs of labour have led to the TNCs setting up production sites in these countries.
- Lack of unionisation
  - In many LDCs, lack of unionization has resulted in no freedom and fight for rights.

# Causes for the emergence of NIDL

## 4. Search for new markets

- The larger the size of the potential market, the more TNCs will be attracted to bring in more revenue.
- Searching for new markets can also allow for reduced costs with a more diversified supply chain and lessen the chance of inventory shortage.

## 5. Favourable government policies

- To attract investments from foreign companies, governments may reduce taxes and issue subsidies.
- Greater focus on research and development by governments will attract more TNCs to set up research facilities in developed nations.



# Exam Requirements

- Understand the spatial variation of the NIDL (which countries/regions have the lower-skilled labour and which has higher-skilled).
- Explain the factors that have led to the emergence of the NIDL.



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# Global Production Networks: Production Circuit

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# Core of the Global Production Network [GPN]

- The core of the GPN is the circuit of interconnected functions, operations and transactions through which a specific commodity, good or service is produced/manufactured, distributed and consumed.

# Production Circuit

- A Production Network/Circuit involves 2 or more value chains that share at least one actor.

## 6 Stages:

- Inputs
- Transformation
- Distribution
- Consumption
- Additional inputs
- Control systems

## Inputs / Additional Inputs

- Inputs work throughout the entire production circuit → Includes technology inputs and energy inputs, as well as service and logistical inputs.

**Technology Inputs:** Research, Design, Quality control, product technology

**Energy Inputs:** Electricity → Fossil Fuels (Oil, Coal, Natural Gas), Renewable Energy (Nuclear Energy, Biofuels, Solar Energy, etc.)

**Service Inputs:** Accountancy, Human Resources, Advertising, Maintenance

**Logistical Inputs:** Movement of Products/Materials/People

# Transformation

- Transformation refers to the transformation of raw materials into the physical product.
- The 'Transformation' stage involves assembly plants, production plants, etc. usually located in areas with low-cost labour and low-skilled labour.





# Distribution

- Distribution is the process of making the product/service available for the consumer and/or business.
- Distribution can be done by the producer or service provider, or using indirect channels with hired distributors.
- Distribution can be done globally to all stores/retailers who are carrying the good/service.

# Consumption

- Consumption refers to the final product being 'taken-in'/consumed by the customer, it is the final, tangible product produced by the producer..
- Usually the end stage of the production circuit, where consumers' needs and wants are satisfied.

# Control systems

- Control systems mainly perform high-level, high-skilled jobs
- Includes deeper market research, management of the company's customers and distributors, inventory control → With targets to improve customer service, expand its market share, and increase its sales volume.
- Involves heavy research and development, founded in more developed areas.

# Exam Requirements

- Understand the various stages of the production circuit and how they work.
- Recognise that Production Circuits are crucial to creating a global production network and that there are huge spatial variations (where each stage is usually located in) amongst the various stages of the circuit.



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# **Global Production Networks: Intra/Inter-Firm Networks**

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# Intra-Firm Networks

- Look at the control and coordination of different business functions.
- Headquarters, Regional Headquarters, Research & Development Facilities, Production Units, Marketing & Sales



# Intra-Firm Networks: Headquarters (HQ)

- Exerts overall control over a firm, makes important decisions and controls the entire network.

## Roles include:

- Financial management and information dissemination and coordination.
- Involved in legal, finance and advertising.
- High-skilled management.

# Intra-Firm Networks: Regional Headquarters (RHQ)

- Intermediate level in corporate organisation structure.

## Roles include:

- Intermediary between the parent company/headquarters and regional affiliates.
- Require similar locations as HQ (high-tech areas, high-skilled areas).

# Intra-Firm Networks: Research & Development Facilities (R&D)

- Transnational Corporations spend more on R&D than other firms to maintain their competitive edge and profit margins.
  - Types of R&D depends on the market orientation of the TNC (consumer/capital-based).
  - If TNC has a huge global reach, its R&D capabilities may be dispersed globally in order to better capitalise on the competitive advantage of each nation/region in each stage.
- Tend to be clustered in economically-developed regions.
  - This allows for intangible benefits to be reaped (socio-cultural innovation, innovative solutions from scholars).
  - Highly trained/skilled workers can be found here.

# Intra-Firm Networks: Production Units

## 4 main ways of organising production capacity globally:

1. Globally concentrated production (one factory to export to global market)
2. Hist-market production (A factory is set up in every market/country)
3. Production specialisation (one factory for a regional market)
4. Transnational vertical integration (producer-driven → One factory for one specific part/component, assemble all separate parts into a finished product at a different factory)

## Intra-Firm Networks: Marketing and Sales

- Of all units within a TNC, the marketing and sales unit are likely to be the most geographically dispersed.
- Needs to be in a position to prevent the firm from making costly mistakes due to the variety of consumer cultures in the markets.
  - Must be targeted in order to gather relevant information for decision-making/marketing strategies.

# Inter-Firm Networks

- Looking at the relationship between suppliers, sub-contractors and strategic partners.

## Inter-Firm Networks: Relationship with suppliers/subcontractors

- Subcontracting means 1 firm outsources some of its operations to another firm.
- Sub-contractor is considered a supplier of the principal firm.
- Outsource is when another company manages the non-core business.
  - E.g. Manufacturing of the finished product.

# Inter-Firm Networks: Relationship between subcontractors and principal firm

## 3 main types of relationships:

### 1. Captive Production Networks

- Principal firm is dominant and effectively controls sub-contractors.

### 2. Relational Production Networks

- Governed less by authority of lead firm but by social relationships based primarily on trust and reputation between the principal firm and subcontractors.

### 3. Modular Production Networks

- Principal firm should be able to utilise base process, component or service at the turn of a key (turnkey suppliers).



# Inter-Firm Networks: Relationship with strategic partners

- Strategic alliances are formal agreements between firms to pursue a specific strategic objective to enable firms to achieve a specific goal that they believe cannot be achieved on their own.
- Involves sharing risks and reward.
- Essentially a collusion (economics).

**Benefits:** Overcoming problems of access to markets, sharing uncertainties, gaining access to technologies.

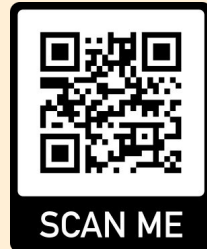
**Limitations:** difficult to manage and coordinate, may result in misunderstandings, could be illegal in some countries.

# Exam Requirements

- Be able to explain the various components of an intra-firm network and their requirements which vary spatially.
- Be able to explain the relationships found in inter-firm networks.



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# **Transnational Corporations: Characteristics, Structure**

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# Definition of Transnational Corporations (TNCs)

- One that operates in many different countries regardless of national boundaries so as to maximise profits.
- TNCs are a driving force behind globalisation → Has the ability to generate income both inside and outside for the domestic country it belongs to.

# Characteristics of TNCs

1. Able to coordinate and control cross-border operations
2. Diversification of product range across markets
3. Able to take advantage of economic and socio-cultural differences by re-deploying resources and reorganizing operations
4. Job Specialisation and Outsourcing

# 1. Able to coordinate and control cross-border operations

- TNCs have extensive operations with business functions spread out over multiple countries.
- Many firms can successfully coordinate immensely complex global operations with the hundreds of thousands of employees across all countries.
- Coordination can be done via global and regional headquarters.
- Telecommunication has made for ease of such coordinations.



## 2. Diversification of product range across markets

- Many TNCs have a wide range of products and brands, possible from different sectors of the economy but all under one name.
- Diversification assists in gaining economies of scale, and allows for greater customer retention globally.
- E.g. Kraft



### 3. Able to take advantage of economic and socio-cultural differences by re-deploying resources and reorganizing operations

- TNCs have the ability to relocate resources and operations in a relatively short space of time.
  - Room for potential geographical flexibility → Ability to switch its resources and operations between locations at the international scale and hence take advantage of cost-effective locations.
- Organising structure of TNC such that low-skilled and low-cost labour are found in less-developed countries and the opposite for high-skilled jobs to reap most benefits (low cost, skill gap)

## 4. Job Specialisation and Outsourcing

- TNCs choose to focus on specific areas in the manufacturing process and outsource other areas to subcontractors (other external companies).
- Workers in production units of TNCs are trained to specialise in specific areas of the manufacturing process and assembly line.
  - E.g. Apple outsources to Foxconn and Samsung.
- Allows for quicker manufacturing times and reduction of costs.

# Structure of a TNC

- Essentially an intra-firm network.

## 1. Corporate Headquarters (HQ)

- Exerts control and decision-making → Provides the centre of overall control over the entire TNC.
- Responsible for all strategic investment decisions to build a stronger company.

## 2. Regional Headquarters (RHQ)

- Integrates activities within a region, coordinates and control firms' partners such as manufacturing units, sales offices, etc.

# Structure of a TNC

## 3. Research and Development Facilities (R&D)

- Usually located next to HQ or in other areas within the same country.
- Access to specialised and skilled labour with the appropriate technology and infrastructure for R&D.
- Creation of new products and more efficient methods of production.

## 4. Marketing and Sales

- Varies based on market → More targeted based on needs of the market.

# Structure of a TNC

## 5. Production Plants/Factories

- Could be two types - one which is sensitive to the needs and demands of the local market and produces a range of final products that serves that market or different plants producing a separate operation in a production process where it later all comes together for final assembly.

## 6. Subcontracting/Outsourcing

- Subcontracting refers to a business that signs a contract to perform part of the main contractors' overall project.
- Outsourcing means the delegation of non-core operations from internal production to an external company specialising in that operation.

# Exam Requirements

- Be able to explain the characteristics and overall structure of a TNC.
- In the next part, we will explore on the benefits/costs, as well as impacts of a TNC.



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# **Transnational Corporations: Benefits/Costs & Impacts**

Human Geography

# Positive Impacts for TNCs by producing outside HOME countries

## 1. Lower cost of labour

- Abundant labour source is available in host countries (LDCs) and at a much lower cost.
- Low cost labour allows TNCs to reap significant cost benefits and focus money in other areas of the firm.

## 2. Economics of Scale

- TNCs can form collaborations with other TNCs to enjoy a shared cost.
- Large scale operations located globally in a variety of different markets allows a TNC to reap EOS.

# Positive Impacts for TNCs by producing outside HOME countries

## 3. Avoidance of strict domestic environmental regulations

- LDCs are not as strict in terms of environmental regulations so as to attract TNCs.
- This allows the TNC to produce without having to take into account environmental considerations.

*Evaluation:* Can be a benefit and a cost, depending on perspective.

## 4. Tapping on potential markets in other countries

- TNCs can extend their market (sphere of influence) beyond the size of individual national markets.
- Local market in host countries can be a potential market for TNCs, especially for countries with larger populations.

# Negative Impacts for TNCs by producing outside HOME countries

## 1. Increased vulnerability to disruptions for operations

- Operations can be affected by changes in other countries such as labour unrest, social conflicts or government policy changes.

## 2. Fluctuations in currency exchange rates

- Unstable exchange rates can result in an increase in transaction costs at different parts of the production circuit of a TNC.
- Movement of goods/services may see increased costs.

# Negative Impacts for TNCs by producing outside HOME countries

## 3. TNCs coordination and control of operations are more complex

- Task of managing a globally integrated operation is bound to be more complex and demanding → May require greater management skill and knowledge to overcome such barriers.
- This could result in increased unintended costs.

# Positive Impacts on HOST countries

## 1. Source of Employment

- Presence of TNCs will provide job opportunities for the host countries.
- Beneficial for people who are suffering from poverty in LDCs → Provides increased source of income as compared to agricultural sector → Increase living standards.

## 2. Increased investments and foreign currency to the country

- TNCs will invest in their own operations in the host countries and this investment will aid in generating economic growth.

# Positive Impacts on HOST countries

## 3. Provides education and training for the local people - skills development

- Improves the level of skill and expertise of the workforce by transferring skills and knowledge through training and education.
- In the long-run, LDCs can learn operating styles and managerial skills for these TNCs.

## 4. Transfer of Knowledge/Technology

- TNCs will transfer technology across countries (both DCs and LDCs), especially the capital-intensive economies.
- Aids in achieving sustainable development as well, and creation of a more interconnected world.



# Negative Impacts on HOST countries

## 1. Exploitation of local labour force

- Due to the nature of jobs, locals may be poorly paid and may need to work long hours.
- Working conditions may not always be conducive (sweatshops by Nike, Coca Cola, etc.)

## 2. Economic Dependency on TNCs

- Local economies may rely too much on TNCs as they are the only source of employment and income → Should the TNCs leave/fail → Local economy would become vulnerable with no other source of revenue.

# Negative Impacts on HOST countries

## 3. Threats to local industries/businesses

- TNCs often compete with local firms which may result in home industry contracting.
  - Forces some local businesses out of business.

## 4. Insufficient attention to the protection of the environment

- TNCs are cost-oriented and prioritise making of profits → May not care much about protection of the environment → Produces negative externalities and cause health concerns amongst locals.

## Positive Impacts on HOME countries

1. TNCs are a means for governments to **maintain a dominant world economic position** in other expanding economies.
2. Improves a country's **balance of trade**.
3. TNCs can **earn a lot via the foreign exchange** which benefit home economies when there is repatriation of profits.

## Negative Impacts on HOME countries

1. Jobs are lost due to **structural changes** in economy
2. Home countries may have a **decrease in trade** (by exporting jobs, investing money overseas → Results in a decrease in products made in home country to be exported).
3. **TNCs are major causes of unequal distribution of wealth**
  - By moving a variety of productive/low-skilled jobs out of the country → Leaves mostly highly specialised and skilled occupations for which only their wealthy and highly-educated locals can take position in.

# Exam Requirements

- Explain the benefits that a TNC is able to reap for its home economy and itself.
- Explain and discuss the relative impacts of TNCs on home and host economies.
- Explain the characteristics of TNCs in relation to their benefits/costs/impacts.



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# Role of the STATE

Human Geography



## Definition of the STATE

- The state is essentially the **government in power**.
- They are a very important player in shaping the world economy and the development of a country.
- We will observe in detail the several roles a state plays.

# 1. Role of the State as a regulator of the economy

- State has to regulate global economic activities.
- The state can implement several policies which aid in the country achieving greater economic objectives.

## (a) Trade Policies

- Pursue free trade to increase net exports to a country.
- To protect the interests of its domestic producers → Ensures that they are able to export globally and earn significant levels of foreign currency.
- Tariffs can be levied on value of imports such that it increases its price to the domestic consumer and make imported goods less competitive → **Protects domestic industries.**
- Some countries may choose to pursue protectionism instead (good and bad).

# 1. State as a regulator of the economy

## (b) FDI Policies

- FDI policies can be implemented to attract foreign investments from TNCs so as to increase investments and spur greater long-run growth.
- Can support domestic industries or support foreign companies via incentives such as subsidies, access to capital.

## (c) Industry Policies

- To encourage growth across all industries through regulatory policies.
- Requires good foresight by the state to identify a country's competitive advantage and provide support to grow these industries.

# 1. State as a regulator of the economy

- Introduction of **Export Processing Zones (EPZ)**
  - Attracts FDI and increases trade.
  - Includes free trade zones, free ports, etc.
  - Stimulates growth of local industries to supply materials to foreign companies.
  - Aids employment.
  - Requires strong infrastructure and constant support in the form of capital/investments by the state.

## 2. Role of the state as the institution of last resort

- State has to be able to deal with **financial crises**.
  - Market failure is likely amongst industries → State has to implement the relevant and effective policies that correct such failures.
  - Global financial crises are imminents → State has to have backup reserves and prepare tide through such crises.
- State has to guarantee **stability of national currencies**.
  - Ensure that currency is well-managed (appreciated/depreciated when necessary).
- Be able to handle **potential threats** (social/environment/economic)
  - State must handle social issues such as conflicts, pandemics, environmental catastrophes.

### 3. Role of State as a provider of public services

- State has to be a direct provider of public goods such as **transport, education, housing, infrastructure, healthcare**.
  - Such services are often seen as **too risky/unprofitable** for private firms.
- State must be able to well-manage its **fiscal budget** and taxes/subsidies to ensure each citizen has access to such public services.

## 4. Role of the state as business owner and investor

- The state can be directly engaged in the economic activities of firms.
  - Known as state-owned enterprises.
- Some states have become major global investors through their own national funds, known as **Sovereign Wealth Funds** (funds used for investment in global companies).
- Other states have adopted certain services under the government (state-owned firms).
  - E.g. Public Utilities Board (PUB) in Singapore is under the Ministry of Environment and Water Resources.

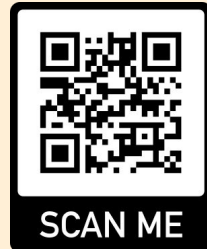
# Exam Requirements

- Explain the various roles of the state.
- Be able to explain and discuss the role of the state in relation to other stakeholders in today's world.





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# **Influence of Regional and International organisations**

Human Geography

# Influence of Regional and International Organisations

- Regional and International Organisations aid in the facilitation of global activities such as international trade/management of global issues.
- Regional Organisations operates amongst countries within a **defined regions** (e.g. ASEAN).
- International Organisation operate internationally, on a **global** scale (e.g. World Bank).

# ASEAN Free Trade Area [AFTA]



- **Regional Organisation**
- ASEAN was founded in 1967, while the ASEAN Free Trade Area was established in 1992.
- The AFTA aimed to increase competitiveness, where it started to form trade blocs (groups of countries that share trade agreements with one another).
  - Aimed to liberalize trade through elimination of tariffs and trade barriers, and expand intra-regional trade.
  - Aimed to increase investments across the countries.

**Benefits:** Increase in **FDI inflows/outflows**, **increased reputation** of ASEAN and boosted growth across ASEAN countries.

**Drawbacks:** Economic progress is still dependent on **effective economic policies**, and **uneven impact** of FDI flows with some countries benefiting more than others (results in a development gap).

# International Monetary Fund (IMF)



- Concerned with the health of the international monetary system.
- Aims to help member countries in overcoming short-term financial instability if required.
  
- Monitors economic and financial development, and provides policy advice to member countries.
- Provides assistance and training, as well as support (monetary) policies to strengthen financial sectors.
- Funds are provided via the administration of **Structural Adjustment Programme (SAP)**.
  - A lending programme at highly subsidised rates to help countries in need.

# International Monetary Fund (IMF)

**Benefits:** An avenue for countries in desperate needs to have **access to available funds**, **track-record** of being successful in pursuits to support countries.

**Drawbacks:** **Voting rights** are proportional to the size of a nation's quota (the amount of money the nation contributes to the fund, 85% required to approve loans), Governed by finance ministers and central bank governors who may have **different goals** (profit maximisation instead of social welfare maximisation).

# World Bank

- Founded in 1994 at the Bretton Woods Conference.
- A country first needs to join the IMF first, then agree to a economic conduct to join the World Bank.
- World Bank is an international financial institution that provides loans and grants to the governments of less-developed countries for the purpose of pursuing projects (investment, capital, etc.).

**Benefits:** Money available for governments of developing nations, influences nations to **focus on research, technology transfer and develop long-term.**

**Drawbacks:** **Unequal voting rights**, industrialised countries have majority of voting rights.



# World Trade Organisation



WORLD TRADE  
ORGANIZATION

- Responsible for the regulation of global trade and operates multilateral rules-based systems.
- Administers trade agreements and monitors trade policies.

**Benefits:** Has accounted for 97% of global trade.

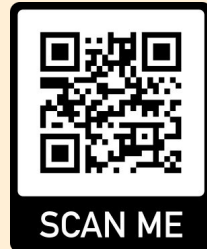
**Drawbacks:** Has increased uneven development on a global scale.

# Exam Requirements

- Explain the various supranational organisations involved in the world economy.
- Discuss the role of regional organisation and international organisations relative to other stakeholders (TNCs, Governments, non-state actors).



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# **Involvement of Non-State Actors**

**Human Geography**

## Non-State Actors

- Watchdogs
- Media Agencies
- Standards Organisations
- Non-Governmental Organisations

# Watchdogs

- Agents seen as those who can bring about **change to cure a range of social and economic issues** left by failures in the government or market.
- They watch the activities of a particular part of government in order to report illegal acts or problems.



# Media Agencies



- Responsible for conveying and **portraying of neutral standpoints** and accurate news coverage on societal issues.
- State gets involved in **investigating the wrongdoings** of private firms after the media breaks the news.
- Different news outlets will cover different types of news (business, fashion, etc.)
- E.g. CNN, Forbes, CNA, Straits Times





# Standards Organisations

- Most standards organizations tend to be voluntary, with the intention of developing, or crafting of new solutions/standards to address various needs or people.
- Some standards organisations could include international organisations and non-governmental organisations.

# Non-Governmental Organisations

- Private organisations that pursue activities to **relieve suffering**, promote **interest of poor** and protect the **environment**.
- Different NGOs will serve different purposes and goals.
- E.g. World Wide Fund for Nature (WWF)
- Advancement in communication technology have allowed for individuals to create new NGOs together from different countries.
- Focus on areas that government may not tackle.



# Relative significance of non-state actors

- Non-state actors reshape their institutional structure of economic governance at both the international and subnational scales.
- They are still a very important actor in managing economics through addressing issues that governments may neglect. Often, these are pressing issues for the people.
- Non-state actors may not have the most power, but can definitely have a lasting influence on global issues.

# Exam Requirements

- Explain the various non-state actors involved in the world economy/society.
- Discuss the role of non-state actors relative to other stakeholders (TNCs, Governments, supranational organisations).



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